

Message Text

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ACTION STR-07

INFO OCT-01 EUR-12 IO-13 ISO-00 STRE-00 AF-10 ARA-10
EA-10 NEA-10 OIC-02 CEA-01 CIAE-00 COME-00
DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15
ITC-01 TRSE-00 ICA-11 SP-02 SOE-02 OMB-01 DOE-15
AGR-01 JUSE-00 DOEE-00 SSO-00 /169 W
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P 041137Z JUL 78
FM USMISSION GENEVA
TO SECSTATE WASHDC PRIORITY 1632
INFO AMEMBASSY OTTAWA

LIMITED OFFICIAL USE SECTION 01 OF 02 GENEVA 10105

USMTN
ACTION STR PASS ELECTRICALLY
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E.O.11652:N/A
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SUBJECT: US-CANADA BILATERAL ON PRIORITIES

REFS: (A) STATE 167629, (B) STATE 167583

1. IN MARATHON SESSION OVER THE WEEKEND US DEL (HAMERSCH-
LAG ET AL) AND CANADA (AMB. GREY ET AL) DELINEATED THE
PRIORITIES WHICH WOULD BE AN ESSENTIAL PART OF JULY 15
PACKAGE, PARTICULARLY IN THE TARIFF AREA. BASED ON THESE
DISCUSSIONS THE CANADIAN DEL IS SENDING RECOMMENDATIONS TO
OTTAWA FOR IMPROVEMENTS IN THE CANADIAN OFFER TO BE CON-
SIDERED BY CABINET MINISTERS ON JULY 7-8. ATTENDING THE
WEEKEND SESSIONS WERE TWO KEY OFFICIALS FROM OTTAWA,
LOOMER OF FINANCE AND GERSON OF ITC. DISCUSSIONS ON
AGRICULTURE WILL BE REPORTED SEPTTEL.

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2. BEFORE GETTING INTO THE SPECIFICS OF TARIFF LINE
ITEMS, US DEL STRESSED THE NEED FOR MAJOR IMPROVEMENTS IN
THE CANADIAN OFFER, AND CITED TWO IMPORTANT IRRITANTS IN
OUR TRADE RELATIONS ON WHICH PROGRESS WAS ESSENTIAL: THE
MADE IN CANADA/MACHINERY PROGRAM AND TARIFF DISPARITIES.
US CLEARLY LABELLED MADE IN CANADA/MP AS MAJOR OBJECTIVE,

AND FOR BENEFIT OF OTTAWA VISITORS REPEATED POINTS CITED MANY TIMES IN PREVIOUS BILATERALS (E.G., GENEVA 7491). GREY RESPONDED THAT CERTAIN "MADE IN CANADA" POSITIONS IN THE TARIFF COULD PROBABLY BE ELIMINATED, AND ADDITIONAL PROGRESS MADE IN EXPANDING THE BOUND DUTY-FREE LIST IN MACHINERY (42700) BUT HE COULD NOT SEE ANY WAY IN WHICH THIS COMPLEX AND SENSITIVE ISSUE COULD BE RESOLVED BY JULY 15. SPEAKING PERSONALLY HE BELIEVED THAT DETAILED TALKS ON THIS ISSUE COULD PROCEED IN THE FALL TO DISCUSS WAYS IN WHICH THE US DESIRES MIGHT BE ACCOMMODATED. (IN PRIVATE ASIDE, GREY SAID THAT MACHINERY PROGRAM WAS OUT-MODED AND SHOULD BE SUBJECTED TO INTENSIVE POLICY REVIEW IN OTTAWA, BUT HE DID NOT KNOW WHETHER HIS VIEW WAS SHARED BY OFFICIALS RESPONSIBLE FOR PROGRAM.) ON DISPARITIES US INDICATED PROBLEM WAS PARTICULARLY ACUTE IN THOSE AREAS WHERE CANADA WAS A MAJOR COMPETITOR IN US MARKET AND A SUBSTANTIAL TARIFF DISPARITY EXISTED, E.G., WALLPAPER, BRICKS AND PLEASURE CRAFT. CANADIANS SEEMED WELL-DISPOSED TO THIS LINE OF ARGUMENT, AND LOOMER OF FINANCE COMMENTED THAT CANADIAN MINISTERS COULD UNDERSTAND THIS KIND OF BASIC EQUITY ISSUE.

3. AFTER GENERAL DISCUSSION EMPHASIZING IMPORTANCE OF SATISFACTORY RESOLUTION OF MACHINERY PROGRAM PROBLEM AND DISPARITIES, US DEL SPELLED OUT US PRIORITY REQUESTS FOR IMPROVEMENTS AS OUTLINED REFTEL A. PARTICULAR EMPHASIS LIMITED OFFICIAL USE

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WAS PUT ON SUCH DISPARITY ITEMS AS ADVERTISING MATTER, WALLPAPER, AND PLEASURE BOATS. INDUSTRY INTERESTS IN GREATER MARKET ACCESS FOR PAPER AND WOOD PRODUCTS AND CHEMICALS WERE ALSO STRESSED. CANADIAN DEL RESPONDED THAT THEY INTENDED TO REACT QUICKLY TO AS MANY US REQUESTS AS POSSIBLE. THEY DID NOT RULE OUT POSSIBLE EVENTUAL OFFER ON MOST ITEMS, BUT STRESSED TIME PROBLEM IN ABILITY TO RESPOND SPECIFICALLY ON EACH REQUEST, ESPECIALLY ON EXOUTS FROM BASKET CATEGORIES. CANADIAN DEL INDICATED US REQUESTS ON PLASTICS AND RESINS WERE A REAL PROBLEM, BUT SEEMED AMENABLE TO CONSIDERING REQUEST ON LARGE DIAMETER LINE PIPE FOR THE ALASKAN PIPE LINE IF OUR PRODUCT INTEREST COULD BE CLARIFIED. THE RECURRING DUTY PROBLEM ON RAILWAY CARS WAS AGAIN BROUGHT UP IN CONNECTION WITH OUR REQUEST ON RAILWAY LOCOMOTIVES AND CARS.

4. US ASP OFFER AND EXPECTED RECIPROCITY WAS PRESENTED AS PER REFTEL B AND TPSC 78-75. IN RESPONSE, AMB. GREY NOTED THAT CANADIAN CHEMICAL INDUSTRY WAS AMONG THE STRONGEST OPPONENTS OF THE VALUATION CODE. HE ALSO QUESTIONED WHETHER CANADIAN ADHERENCE TO THE CUSTOMS VALUATION CODE WAS IN US INTEREST SINCE CANADIAN VALUA-

TION PROCEDURES DISCRIMINATED AGAINST JAPAN AND EC IN FAVOR OF THE US. HE ALSO COMMENTED THAT MADE IN CANADA ISSUE WOULD FARE BETTER ON ITS OWN THAN LINKED AS PAYMENT FOR ASP.

5. IN ACCORDANCE WITH TPSC 78-75, US MTN DEL OUTLINED US POSITION ON CONVERSION OF SPECIFIC AND COMPOUND RATES TO AD VALOREM EQUIVALENTS. GREY IMMEDIATELY RESPONDED THAT CANADA WOULD NEVER AGREE TO SUCH A PROVISION IN THE JULY 15 AGREEMENT AND URGED THE US TO IMMEDIATELY NOTIFY UNDER ARTICLE XXVIII. UPON NOTIFICATION, THE SPECIFIC TO AD VALOREM CONVERSION MIGHT THEN BE MERGED WITH THE MTN AFTER JULY 15. HE EMPHASIZED THAT THE US HAS AN INTEREST IN PRESERVING THE ARTICLE XXVIII PROCEDURES.
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FM USMISSION GENEVA
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6. DISCUSSION OF CANADIAN PRIORITIES BEGAN WITH

REITERATION OF STRONG CANADIAN INTEREST IN FISH. ELEVEN ESSENTIAL ITEMS WERE NOTED (TSUS 110.50-55, 110.65, 112.18, 112.46, 112.82, 113.20-25, 114.15, .20, .25) AS WERE SEVEN OF SECONDARY IMPORTANCE (TSUS 111.37, 111.76, 112.20, 112.94, 111.88, 111.36, 112.90). NEW REQUESTS WERE MADE ON TWO FISH GLUE ITEMS: TSUS 455.36 AND 455.38.

7. CANADIAN PRIORITIES ON ALCOHOLIC BEVERAGES INCLUDED TSUS 167.15, CIDER (AND THE CLASSIFICATION PROBLEM); THE DISCRIMINATION IN THE US TARIFF ON CANADIAN WHISKEY VIS-A-VIS SCOTCH, AND WINE GALLON/PROOF GALLON.

8. CANADIAN INDUSTRIAL PRIORITIES BEGAN WITH AGRICULTURAL IMPLEMENTS TO WHICH MTN DEL RESPONDED FROM TPSC 78-65 THAT US WAS WILLING TO RECOMMEND DUTY FREE TREATMENT ON LIMITED OFFICIAL USE

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THOSE ITEMS WHICH CAN BE SATISFACTORILY DISTINGUISHED FROM SIMILAR NONAGRICULTURAL/HORTICULTURAL IMPLEMENTS.

9. CANADIAN DEL NEXT PRESENTED A STRICTLY CONFIDENTIAL LIST OF THEIR LOWEST PRIORITY ITEMS, PRESUMABLY THOSE ON WHICH US WITHDRAWALS WOULD CAUSE LITTLE CONCERN. ALL WERE ITEMS ON CANADIAN AUGUST 31 LIST WHERE US HAD OFFERED TO GO TO FREE. MTN DEL WILL ANALYZE IMPACT OF WITHDRAWING THESE ITEMS ON US DEPTH OF CUT. FINAL CANADIAN LIST WAS REQUEST FOR IMPROVEMENTS IN US OFFER. MOST WERE FORMULA, OR LESS THAN FORMULA OFFERS BUT THE EXCEPTION ON WOOD SKEWERS WAS ALSO INCLUDED AS WERE REQUESTS FOR GREATER THAN FORMULA OFFERS ON TWO STEEL ITEMS, TSUS 610.39 AND 610.40.

10. DEL COMMENT: SESSIONS SERVED USEFUL PURPOSE OF EXPOSING KEY OTTAWA OFFICIALS TO US POSITION, AND STRENGTHENING HAND OF CANADIAN DEL IN RECOMMENDING IMPROVED CANADIAN OFFER. FEELING WITHIN CANADIAN DEL IS THAT SOME IMPROVEMENT WILL BE FORTHCOMING BEFORE JULY 15 BUT WILL STILL LEAVE A SIZEABLE GAP BETWEEN OUR TWO OFFERS (BASED ON WHAT WE NOW HAVE ON TABLE). CANADIANS SEEM RESIGNED TO US WITHDRAWALS BUT HOPE WE WILL CONSULT BEFORE MAKING THEM, AND WILL TAKE INTO ACCOUNT CANADIAN LIST MENTIONED IN PARA 9 ABOVE. GREY BELIEVES THAT AN ACCEPTABLE FINAL TARIFF PACKAGE WITH THE US CAN ONLY BE NEGOTIATED IN THE FALL WHEN EC AND JAPAN VARIABLES ARE CLEARER BUT HE UNDERSTANDS THE IMPORTANCE OF SUBSTANTIAL CANADIAN ACTION BEFORE JULY 15.

11. DRAFTED BY WHITE/HAMERSCHLAG. MCDONALD

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